

(FORM 765)
KENTUCKY
SCHEDULE K-1

41A765(K-1)
Commonwealth of Kentucky
DEPARTMENT OF REVENUE

PARTNER'S SHARE OF INCOME,
CREDITS, DEDUCTIONS, ETC.

For calendar year 2006 or fiscal year

beginning _____, 2006, and ending _____, 200__.

2006

Partner's identifying
number ➤

Partnership's
FEIN ➤

Kentucky corporation
account number ➤

Partner's name, address and ZIP code

Partnership's name, address and ZIP code

DRAFT
9-8-06

A This partner is a ☐ general partner ☐ limited partner
☐ limited liability company member.

B Partner's share of liabilities:

Nonrecourse \$ _____
Qualified nonrecourse financing \$ _____
Other \$ _____

C What type of entity is this partner? ➤

D Partner's taxable percentage of partnership's distributive share items below (see instructions)

(1) Resident partner 100%
(2) Nonresident partner (see Schedule A, Section I, line 12) ➤ %

E Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	_____ %	_____ %
Loss sharing	_____ %	_____ %
Ownership of capital	_____ %	_____ %

☐ Final K-1
☐ Amended K-1

(a) Distributive Share Items

(b) Amount

Income (Loss)	1. Ordinary income (loss) from trade or business activities	1	
	2. Net income (loss) from rental real estate activities	2	
	3. Net income (loss) from other rental activities	3	
	4. Portfolio income (loss):		
	(a) Interest	4(a)	
	(b) Dividends	(b)	
	(c) Royalties	(c)	
Deductions	(d) Net short-term capital gain (loss)	(d)	
	(e) Net long-term capital gain (loss)	(e)	
	(f) Other portfolio income (loss) (attach schedule)	(f)	
	5. Guaranteed payments to partners	5	
Investment Interest	6. Net gain (loss) under Section 1231 (other than due to casualty or theft)	6	
	7. Other income (loss) (attach schedule)	7	
	8. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	8	
	9. IRC Section 179 expense deduction (attach Federal Form 4562 and Kentucky Revised Form 4562)	9	
Other Items	10. Deductions related to portfolio income (loss) (attach schedule)	10	
	11. Other deductions (attach schedule)	11	
	12. (a) Interest expense on investment debts	12(a)	
	(b) (1) Investment income included on lines 4(a), 4(b), 4(c) and 4(f) above	(b)(1)	
Credits	(2) Investment expenses included on line 10 above	(2)	
	13. (a) Type of Section 59(e)(2) expenditures ➤	13(a)	
	(b) Amount of Section 59(e)(2) expenditures	(b)	
	14. Tax-exempt interest income	14	
Resident Partner Adjustment	15. Other tax-exempt income	15	
	16. Nondeductible expenses	16	
	17. Property distributions (including cash)	17	
	18. Supplemental information required to be reported to each partner (attach schedules)	18	
	19. Individual partners' net distributable share of taxable income taxed under KRS 141.040	19	
	20. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	20	
	21. Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c))	21	
	22. Combination of Kentucky Schedule K-1, lines 1 through 6, 9 and portions of lines 7 and 11. Add income amounts and subtract (loss) and deduction amounts (see instructions)	22	
	23. Combination of federal Schedule K-1, lines 1 through 10, 12 and portions of lines 11 and 13. Add income amounts and subtract (loss) and deduction amounts (see instructions)	23	
	24. Enter difference of lines 22 and 23 here and on appropriate line on Schedule M (see instructions)	24	

PARTNER'S INSTRUCTIONS FOR SCHEDULE K-1 (FORM 765)

DRAFT 9-8-06

Who Must File—Although the partnership is subject to corporation income tax, the partners are also liable for tax on their share of the partnership income, whether or not distributed, and must include their share on the individual income tax return.

If you were a Kentucky resident for the entire year, your filing requirement depends upon the amount of adjusted gross income, age and whether you or your spouse are considered to be blind.

Any person with gross receipts from self-employment exceeding the threshold amount determined under KRS 141.066 must file a Form 740 regardless of the amount of adjusted gross income or the number of tax credits claimed. Generally, all income of Kentucky residents, regardless of where it was earned, is subject to Kentucky income tax. See Form 740 Instructions.

Nonresidents with income from Kentucky sources and part-year residents receiving income while a Kentucky resident or from Kentucky sources while a nonresident must file a Kentucky return. **Partnership income is not exempted by reciprocal agreements between Kentucky and any other state.** Form 740-NP must be filed by an individual with income from Kentucky sources and a combined gross income from all sources exceeding the threshold amount determined under KRS 141.066. Full-year nonresidents must report all income from Kentucky sources and from property located in Kentucky. Persons moving into Kentucky must report income received from Kentucky sources prior to becoming residents and income received from all sources after becoming Kentucky residents. Residents moving out of Kentucky during the year must report income from all sources while a resident and from Kentucky sources while a nonresident.

When to Report—Include your share of the partnership's income or (loss), credits, deductions, etc., as shown by your Schedule K-1 (Form 765) on your Kentucky income tax return for the year in which the tax year of the partnership ends. For example, if you, the partner, are on a calendar year, and the partnership's tax year ends January 31, 2006, you must take the items listed on Schedule K-1 (Form 765) into account on your tax return for calendar year 2006.

At-Risk Limitations—Generally, if you have a loss from any activity carried on as a trade or business or for the production of income by the partnership and you, the partner, have amounts invested in that activity for which you are not at risk, you will be required to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your Kentucky income tax return. Your deductible loss from each activity for the tax year generally is limited to the amount you are at risk for the activity at the end of the partnership's tax year or the amount of the loss, whichever is less. To help you complete Form 6198, if required, the partnership has provided a schedule showing your share of income, expenses, etc., for each at-risk activity.

NOTE: Form 740 filers see Form 740 instructions for Schedule M, Line 5 and/or Line 15.

Passive Activity Limitations—The passive activity limitations in IRC Section 469 are figured at the partner level and may apply to any loss reported on Lines 1, 2 or 3 and any other related items of income, loss and deductions reported on Schedule K-1 (Form 765). Refer to the federal Partner's Instructions for Schedule K-1 (Form 1065) to determine if the passive activity limitations apply to your share of loss(es) reported on Schedule K-1 (Form 765), and if you must file Form 8582-K, Kentucky Passive Activity Loss Limitations.

SPECIFIC INSTRUCTIONS

Kentucky Resident Partners (Form 740 Filers)—To determine the net difference between the federal Schedule K-1 amounts and the Kentucky Schedule K-1 amounts, complete Lines 22, 23 and 24. This will adjust the items of income, loss and deductions used to compute your federal adjusted gross income to the Kentucky amounts shown in Column (b), Schedule K-1.

Line 22—Include on this line, the Kentucky Schedule K-1 amounts from Lines 1 through 6 and 9. Also include the amounts from Lines 7 and 11 that do not pass through to Schedule A as itemized deductions.

Line 23—Include on this line, the federal Schedule K-1 amounts from Lines 1 through 10 and 12. Also include the amounts from Lines 11 and 13 that do not pass through to Schedule A as itemized deductions.

NOTE: If Form 8582-K is required, adjust the amounts entered on Lines 22 and 23 to exclude any income, loss, deduction or expense

related to a passive activity. Complete the passive activities adjustment worksheet (Form 8582-K, page 2) to determine additions to or subtractions from federal adjusted gross income. **See Form 740 instructions for Schedule M, Line 3 and/or Line 13.**

If amounts on Lines 4(d) and 4(e) are subject to the capital loss limitations, do not include on Lines 22 and 23. Complete federal Schedule D using Kentucky amounts to determine additions to or subtractions from federal adjusted gross income.

Line 24—Enter difference of Lines 22 and 23. If Line 22 is greater than Line 23, enter the difference as an addition to federal adjusted gross income on Schedule M, Line 3. If Line 23 is greater than Line 22, enter the difference as a subtraction on Schedule M, Line 13.

Caution: If the amount on Line 22 is a (loss) and Line 23 is a (loss), the smaller amount of the (loss) is the greater amount, and to determine the difference subtract the smaller dollar amount from the larger dollar amount. If the amount on Line 22 is an income amount and Line 23 is a (loss), or if Line 23 is an income amount and the amount on Line 22 is a (loss), the income amount is the greater amount and to determine the difference add the two amounts.

Nonresident Individual Partners (Form 740-NP Filers)—The nonresident individual may need to file Form 740-NP to take advantage of capital loss and net operating loss carryforwards.

Nonresident partners must report their distributive share of income by multiplying the percentage reported on Item D(2) by all items of income (loss) reported on the Kentucky Schedule K-1, Column (b). If the percentage shown in Item D(2) is 100%, you must enter on the appropriate lines of Form 740-NP and related schedules the amounts shown on Lines 1 through 6 and 8, portions of Lines 7, 11 and 12(a), and the portion of Line 13(b) actually deducted for the current year. If the percentage shown in Item D(2) is less than 100 percent, the amounts on Lines 1 through 6 and 8, the portions of Lines 7, 11 and 12(a) which do not pass through to Schedule A and the portion of Line 13(b) actually deducted for the current year must be multiplied by this percentage and entered on the appropriate lines of the Nonresident or Part-Year Resident Income Tax Return, Form 740-NP, and related schedules. Lines 8 and 10, and the portions of Lines 7, 11 and 12(a) which pass through to Schedule A should not be multiplied by the percentage in Item D(2).

Lines 1 through 3—Enter on federal Schedule E using Kentucky amounts or Form 8582-K, if applicable.

Line 4(a)—Enter on Form 740-NP, Section D, Line 3.

Line 4(b)—Enter on Form 740-NP, Section D, Line 4

Line 4(c)—Enter on federal Schedule E using Kentucky amounts.

Lines 4(d) and (e)—Enter on federal Schedule D using Kentucky amounts or Form 8582-K, if applicable.

Line 4(f)—Enter on applicable lines of your return (see federal Partner's Instructions for Schedule K-1 (Form 1065)).

Line 5—Enter on applicable line of your tax return (see federal Partner's Instructions for Schedule K-1 (Form 1065)).

Line 6—Enter on federal Form 4797.

Line 7—Enter on applicable lines of your return (see federal Partner's Instructions for Schedule K-1 (Form 1065)).

Line 8—Enter on Schedule A, Form 740-NP.

Line 9—Enter on federal Schedule E using Kentucky amounts.

Line 10—Enter on Schedule A, Form 740-NP.

Line 11—Enter on applicable form or schedule (see federal Partner's Instructions for Schedule K-1 (Form 1065)).

For Partners

Lines 12, 13(a), 13(b), 14, 15, 16, 17 and 18—See federal Partner's Instructions for Schedule K-1 (Form 1065).

For Individual Partners

Line 19—Enter on Line 2 of the Kentucky Corporation Tax Credit Worksheet located in the Form 740, Form 740-NP or Form 741 instructions under Business Incentive Credits.

Line 20—Enter on Line 7 of the Kentucky Corporation Tax Credit Worksheet located in the Form 740, Form 740-NP or Form 741 instructions under Business Incentive Credits.

Line 21—Enter on Forms 740, Form 741 or Form 740-NP, Line 30(c).

Estates and Trusts (Form 741 Filers)—Estates or trusts report the amounts shown in Column (b) on Form 741, Kentucky Fiduciary Income Tax Return, and related schedules. See federal Partner's Instructions for Schedule K-1 (Form 1065).